

Message Text

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ACTION ARA-14

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TAGS: PN EFIN
SUBJECT: TREASURY CUSTODY ACCOUNT
REF: STATE 195174

1. REGARDING THE ROLE OF THE CUSTODY ACCOUNT, THE ACCOUNT IS NOT THE PRIMARY SOURCE OF PAPER CURRENCY IN PANAMA AS STATED IN PARA ONE OF REFTTEL - IN FACT, CURRENCY IN EXCESS OF PANAMA'S AND THE CANAL ZONE'S NEEDS IS REGULARLY GENERATED FROM A VARIETY OF SOURCES, INCLUDING THE CUSTODY ACCOUNT. THE ACCOUNT'S PRIMARY ROLE NOW IS TO PROVIDE THE SYSTEM WITH NEW CURRENCY AND TO DISPOSE OF UNFIT CURRENCY, AND TO MEET DOD'S SUBSTANTIAL CURRENCY NEEDS HERE.

2. CHANGES IN LOCAL BANKING ARRANGEMENTS BY BOTH PANCANAL AND DOD IN ADDITION TO SIMPLY PROVIDING FOR A POSSIBLE ALTERNATIVE TO THE CUSTODY ACCOUNT'S ROLE APPEAR TO BE NECESSARY UNDER THE NEW TREATIES, SINCE CHASE AND CITIBANK BRANCHES IN BALBOA WILL BECOME BRANCHES OF PANAMA BANKS RATHER THAN OF U. S. BANKS AS AT PRESENT. PANCANAL AND SOUTHCOM HAVE NOW BEGUN TO LOOK INTO THIS QUESTION (E.G., A POSSIBLE MILITARY BANKING FACILITY), INCLUDING A CURRENCY SOURCE, WHICH
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IS PARTICULARLY IMPORTANT TO DOD HERE. FOR OUR INFORMATION: MAY TREASURY OR OTHER U.S. AGENCIES MAINTAIN OPERATING ACCOUNTS IN FOREIGN BANKS?

3. THE ABSENCE OF THE CUSTODY ACCOUNT WOULD REQUIRE PANAMA TO WORK OUT A NEW PROCEDURE WITH TREASURY ET AL TO SUPPLY THE PANAMA BANKING SYSTEM WITH NEW CURRENCY

AND TO DISPOSE OF THE OLD, ALL OF WHICH WILL TAKE SOME TIME. PANAMA -- BOTH THE GOP AND THE PRIVATE BANKING SECTOR -- WOULD OF COURSE PREFER TO RETAIN THE PRESENT SYSTEM OR SOMETHING CLOSELY AKIN TO IT SINCE IT COSTS THEM NOTHING. HOWEVER, THE GOP HAS NOT YET OFFERED SUBSTANTIVE COMMENTS ON THE ISSUE. FOR OUR INFORMATION: WHAT ARE TREASURY'S VIEWS ON ALTERNATIVES TO THE PRESENT CUSTODY ACCOUNT ARRANGEMENT THAT MIGHT BE WORKED OUT WITH PANAMA FOR SUPPLYING ITS NEED FOR NEW CURRENCY AND DISPOSING OF THE UNFIT.

4. WITH REFERENCE TO PARA 4 OF REFTTEL THE U.S.-PANAMA MONETARY AGREEMENT PROVIDES INTER ALIA THAT THE U.S. DOLLAR BE LEGAL TENDER IN PANAMA, WITH THE REST OF THE AGREEMENT, AS AMENDED, DEALING WITH THE MINTING OF PANAMANIAN COINS AND MAINTENANCE OF VALUES. WE DO NOT BELIEVE CLOSING THE ACCOUNT WOULD HAVE ANY EFFECT ON THE 1904 MONETARY AGREEMENT. PANAMA IS NOT LIKELY TO ESTABLISH ITS OWN CURRENCY FOR SOME TIME TO COME.

5. THE MINISTRY OF PLANNING AND ECONOMIC POLICY AND THE NATIONAL BANKING COMMISSION AS WELL AS CHASE MANHATTAN HAVE ALL BEEN INFORMED OF THE TREASURY PROPOSAL. ALL PARTIES WILL NEED A FEW MORE WEEKS TO FULLY EXPLORE ALL RELEVANT ISSUES AND THE EMBASSY WILL BE IN A BETTER POSITION TO MAKE ITS RECOMMENDATION ONCE THAT HAS BEEN UNCLASSIFIED

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DONE. WE THEREFORE URGE THAT THE TREASURY DECISION BE DEFERRED WHILE THE ISSUE IS STUDIED BY ALL INTERESTED PARTIES IN PANAMA. JORDEN

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